

CASS CITY PUBLIC SCHOOLS

Cass City, Michigan

Report on Financial Statements
(with required supplementary
and additional information)

June 30, 2006

BOARD OF EDUCATION

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



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August 10, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Cass City Public Schools
Cass City, Michigan 48726

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of Cass City Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools as of June 30, 2006 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, on our consideration of the Cass City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i through vii and page 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Cass City Public Schools
August 10, 2006

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cass City Public Schools' basic financial statements. The additional information on pages 23 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Cass City Public School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Cass City School District, a K-12 school district located in Tuscola, Sanilac and Huron Counties, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cass City School District administration's discussion and analysis of the financial results for the fiscal years ended June 30, 2006 and June 30, 2005.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. All of the District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Assets		
Current assets	3,610,255	\$ 2,576,389
Capital assets	13,796,534	13,719,020
Less: Accumulated Depreciation	<u>(6,360,041)</u>	<u>(5,946,150)</u>
Capital Assets, net book value	<u>7,436,493</u>	<u>7,772,870</u>
Total assets	<u><u>11,046,748</u></u>	<u><u>\$ 10,349,259</u></u>
Liabilities		
Current liabilities	\$ 4,265,393	\$ 1,823,113
Long-term liabilities	<u>1,699,044</u>	<u>2,008,588</u>
Total liabilities	<u><u>\$ 5,964,437</u></u>	<u><u>\$3,831,701</u></u>
Net Assets		
Invested in capital assets, net of related debt	\$ 5,427,904	\$ 5,076,729
Restricted for debt service	304,783	300,099
Unrestricted (Deficit)	<u>(650,376)</u>	<u>1,140,730</u>
Total net assets	<u><u>5,082,311</u></u>	<u><u>6,517,558</u></u>
Total liabilities and net assets	<u><u>\$ 11,046,748</u></u>	<u><u>\$ 10,349,259</u></u>

Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets decreased by \$1,435,247. A few of the more significant factors affecting net assets during the year are discussed below.

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. The depreciation expense for the fiscal years ended June 30, 2006 and June 30, 2005 was \$413,891 and \$384,967.

Cass City Public School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$77,514 of expenditures were capitalized and recorded as assets of the District and \$297,827 for the year ended June 30, 2005. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$336,377 for the fiscal year ended June 30, 2006.

Results of Operations

For the fiscal year ended June 30, 2006, and June 30, 2005, the results of operations, on a District-wide basis, were:

	June 30, 2006		June 30, 2005	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property taxes	1,501,532	11.88%	\$1,578,699	12.46%
Investment earnings	10,643	0.08%	15,024	0.12%
State sources	9,979,333	78.99%	9,948,995	78.52%
Transfers from other districts	54,260	0.43%	29,919	0.24%
Sale of school property	2,575	0.02%	1,490	0.01%
Other	82,222	0.65%	85,334	0.67%
Total general revenues	11,630,565	92.05%	11,659,461	92.02%
Program Revenues				
Charges for services	320,988	2.54%	319,845	2.52%
Operating grants	683,547	5.41%	691,582	5.46%
Total revenues	12,635,100	100.00%	12,670,888	100.00%
Expenses				
Instruction	8,837,941	62.82%	7,803,260	61.56%
Support services	3,783,549	26.89%	3,398,294	26.81%
Community services	111,820	0.79%	117,085	0.92%
Food services	541,993	3.85%	566,799	4.47%
Athletics	252,918	1.80%	243,789	1.92%
Interest on long-term debt	128,235	0.91%	161,674	1.28%
Unallocated depreciation expense	413,891	2.94%	384,967	3.04%
	14,070,347	100.00%	12,675,868	100.00%
Increase (decrease) in net assets	(\$1,435,247)		(\$4,980)	

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the district levied \$736,109 non-homestead property taxes. This represented a decrease of 1.81% from the prior year. The amount of unpaid property taxes at June 30, 2006, less an estimate for those deemed to be un-collectible, was \$17,000.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-homestead Tax Levy	% Increase (Decrease) from prior year
2005 – 2006	\$736,109	(1.81)
2004 – 2005	749,703	6.04
2003 – 2004	707,005	8.87
2002 – 2003	649,424	(8.96)
2001 – 2002	713,349	3.56
2000 – 2001	688,830	(2.39)

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005 – 2006 fiscal year, the District's foundation allowance was \$6,875 per student FTE, which represented an increase of \$175 over the amount received for the 2004 – 2005 fiscal year.

3. Student Enrollment

The following schedule compares actual to budgeted FTE for the blended student enrollment for the past five fiscal years:

	Actual Blended Student FTE	Budgeted Blended Student FTE	Variance Favorable (Unfavorable)
2005 – 2006	1,496	1,483	13
2004 – 2005	1,520	1,514	6
2003 – 2004	1,531	1,530	1
2002 – 2003	1,575	1,580	(5)
2001 – 2002	1,602	1,620	(18)
2000 – 2001	1,650	1,625	25

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state and other grants accounted for \$683,547. This represents a decrease of \$8,035 over the total grant sources received for the 2004 – 2005 fiscal year.

5. County Special Education Allocation

For the fiscal year ended June 30, 2006, the District received an allocation from the Tuscola Intermediate School District in the amount of \$50,510, to assist with the education of students with special needs.

6. Interest Earnings

The District received interest on its investments in the amount of \$10,643 for the fiscal year ended June 30, 2006. Interest revenues are down from the prior fiscal year by \$4,381.

7. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund balances is shown below.

Expenditures	2005--2006 Fiscal Year	2004--2005 Fiscal Year	Increase (Decrease)
Instruction	\$8,355,860	\$7,734,480	\$621,380
Supporting Services	3,672,053	3,510,431	161,622
Food service activities	541,993	566,799	(24,806)
Athletic activities	252,918	243,789	9,129
Community service activities	111,820	117,085	(5,265)
Capital outlay	229,485	266,109	(36,624)
Debt service	<u>802,280</u>	<u>792,987</u>	<u>9,293</u>
Total Expenditures	<u>\$13,966,409</u>	<u>\$13,231,680</u>	<u>\$734,729</u>

Cass City Public School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30th.

For the 2005 – 2006 fiscal year, the district amended the general fund budget two times with the Board adopting the final changes in June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (negative)	% Variance
Total revenues	\$11,254,369	\$11,273,039	\$11,215,817	\$(57,222)	(0.51)%
Expenditures:					
Instruction	\$8,026,100	\$8,088,613	\$8,456,817	\$(368,204)	(4.55)%
Supporting services	3,471,370	3,535,828	3,800,581	(264,753)	(7.49)%
Community services	<u>114,445</u>	<u>107,640</u>	<u>111,820</u>	<u>(4,180)</u>	<u>(3.88)%</u>
Total expenditures	<u>\$11,611,915</u>	<u>\$11,732,081</u>	<u>\$12,369,218</u>	<u>\$(637,137)</u>	<u>(5.43)%</u>
Other Financing sources (uses):					
Transfer to athletic fund	\$(160,000)	\$(160,000)	\$(163,958)	\$(3,958)	(2.47)%

Capital Asset and Debt Administration

Capital Assets

By the end of the 2005 – 2006 fiscal year, the district had invested \$13,796,534 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$77,514 over the prior fiscal year. Depreciated expense for the year amounted to \$413,891, bringing the accumulation to \$6,360,041 as of June 30, 2006.

Long- term Debt

At June 30, 2006, the District had \$2,450,194 in long-term debt outstanding, of which \$1,971,260 was bonded debt. This represents a reduction in bonded debt of \$663,642 over the amount outstanding at the closed of the prior fiscal year as no new debt was issued in the 2005 – 2006 fiscal year.

Cass City Public School District

Management's Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future.

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2006 – 2007 fiscal year. The early indication is that the foundation allowance will be increased slightly which will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has not managed to keep down the growth in the rate districts fund the retirement system over the past few years, and the increase in the number of retirees projected to occur over the next few years may also result in higher annual increases.
- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Education Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Behind Act, adequate yearly progress of students will be more important as certain portions of funding are now tied to it.

Contracting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact:

Ronald Wilson, Superintendent
Cass City Public Schools
4868 N. Seeger St.
Cass City, MI 48726
(989) 872-2200

BASIC FINANCIAL STATEMENTS

CASS CITY PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
June 30, 2006

	ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:		
Cash		\$ 1,739,646
Investments		24,755
Due from other governmental units		1,809,398
Accounts Receivable		19,456
Property taxes receivable		17,000
Due from other funds		-
TOTAL CURRENT ASSETS		3,610,255
NONCURRENT ASSETS:		
Capital assets		13,796,534
Less accumulated depreciation		(6,360,041)
TOTAL NONCURRENT ASSETS		7,436,493
TOTAL ASSETS		\$ 11,046,748
	LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:		
Accounts payable		\$ 73,181
Notes payable		2,300,000
Accrued salaries & wages		589,406
Accrued payroll taxes		70,007
Accrued interest		34,137
Benefits payable		218,783
Retirement payable		228,728
Deferred revenue		-
Retirement incentive payable		80,000
Current portion of long term debt		671,151
TOTAL CURRENT LIABILITIES		4,265,393
NONCURRENT LIABILITIES:		
Noncurrent portion of long term debt		1,337,438
Retirement incentive payable		160,000
Compensated Absences		201,606
TOTAL NONCURRENT LIABILITIES		1,699,044
NET ASSETS:		
Invested in capital assets, net of related debt		5,427,904
Restricted for debt service		304,783
Unrestricted (Deficit)		(650,376)
TOTAL NET ASSETS		5,082,311
TOTAL LIABILITIES AND NET ASSETS		\$ 11,046,748

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Expenses	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 8,837,941	\$ 21,225	\$ 305,255	\$ (8,511,462)
Support services	3,783,549	9,096	130,823	(3,643,629)
Community services	111,820			(111,820)
Food services	541,993	201,068	247,469	(93,456)
Athletics	252,918	89,599		(163,319)
Interest on long-term debt	128,235			(128,235)
Unallocated depreciation	413,891			(413,891)
Total governmental activities	<u>\$ 14,070,347</u>	<u>\$ 320,988</u>	<u>\$ 683,547</u>	(13,065,812)
General revenues:				
Property taxes, levied for general purposes				736,109
Property taxes, levied for debt service				765,423
State of Michigan school aid unrestricted				9,979,333
Investment revenue				10,643
Transfer from other districts				54,260
Sale of school property				2,575
Miscellaneous				82,222
Total general revenue				<u>11,630,565</u>
Change in net assets				(1,435,247)
Net assets, beginning of year				<u>6,517,558</u>
Net assets, end of year				<u>\$ 5,082,311</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	GENERAL FUND	DEBT SERVICE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash	\$ 1,395,241	\$ 338,920	\$ 5,485	\$ 1,739,646
Investments	24,755			24,755
Due from other governmental units	1,809,398			1,809,398
Accounts receivable	19,456	-	-	19,456
Due from other funds	23,152			23,152
Prepaid expenses	-			-
TOTAL ASSETS	<u>\$ 3,272,002</u>	<u>\$ 338,920</u>	<u>\$ 5,485</u>	<u>\$ 3,616,407</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
LIABILITIES:				
Accounts payable	\$ 73,181			\$ 73,181
Notes payable	2,300,000			2,300,000
Accrued interest	15,065			15,065
Accrued salaries & wages	589,406			589,406
Due to other funds			\$ 23,152	23,152
Deferred revenue	-			-
Accrued payroll taxes	70,007			70,007
Benefits payable	218,783			218,783
Retirement payable	228,728			228,728
TOTAL LIABILITIES	<u>3,495,170</u>		<u>23,152</u>	<u>3,518,322</u>
FUND BALANCE:				
Unreserved (Deficit)	(223,168)		(17,667)	(240,835)
Reserved for debt service		\$ 338,920		338,920
TOTAL FUND BALANCE (DEFICIT)	<u>(223,168)</u>	<u>338,920</u>	<u>(17,667)</u>	<u>98,085</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,272,002</u>	<u>\$ 338,920</u>	<u>\$ 5,485</u>	<u>\$ 3,616,407</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 98,085
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is:	13,796,534
Accumulated depreciation is:	(6,360,041)

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds payable:	(2,008,589)
Retirement incentive payable	(240,000)
Compensated absences	(201,606)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid:	(19,072)

Balance of taxes receivable at 6/30/06 less allowance for doubtful accounts, expected to be collected after September 1, 2006

17,000

Net Assets of Governmental Activities

\$ 5,082,311

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	GENERAL FUND	DEBT SERVICE	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Local sources				
Property Tax	\$ 736,109	\$ 765,423	-	\$ 1,501,532
Interest income	7,650	2,843	\$ 150	10,643
Food sales and athletic admissions			321,029	321,029
Other	82,181		-	82,181
State sources	9,896,964	41,445	40,924	9,979,333
Federal sources	436,078		247,469	683,547
Other transactions:				-
Transfers from other districts	54,260			54,260
TOTAL REVENUES	11,213,242	809,711	609,572	12,632,525
EXPENDITURES:				
Instruction	8,355,860			8,355,860
Supporting services	3,672,053			3,672,053
Community services	111,820			111,820
Food services			541,993	541,993
Athletics			252,918	252,918
Capital outlay	229,485			229,485
Debt service:				
Principal retirement	-	663,641		663,641
Interest	-	138,639		138,639
Other costs		-		-
TOTAL EXPENDITURES	12,369,218	802,280	794,911	13,966,409
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,155,976)	7,431	(185,339)	(1,333,884)
OTHER FINANCING SOURCES (USES):				
Transfer from General Fund			163,958	163,958
Transfer to Athletic Fund and Hot Lunch	(163,958)			(163,958)
Principal payments	(23,911)			(23,911)
Interest payments	(1,914)			(1,914)
Sale of school property	2,575			2,575
TOTAL OTHER FINANCING SOURCES (USES)	(187,208)	-	163,958	(23,250)
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(1,343,184)	7,431	(21,381)	(1,357,134)
FUND BALANCE - BEGINNING OF YEAR	1,120,016	331,489	3,714	1,455,219
FUND BALANCE (DEFICIT) - END OF YEAR	\$ (223,168)	\$ 338,920	\$ (17,667)	\$ 98,085

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
June 30, 2006

Total net change in fund balances--governmental funds **\$ (1,357,134)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(413,891)
Capital outlay	77,514

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	31,390
Accrued interest payable at the end of the year	(19,072)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

687,552

Proceeds on long-term debt is a revenue in the governmental funds, but not in the statement of activities (it is an increase of liabilities)

-

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Accrued revenue at the beginning of the year	(17,000)
Accrued revenue at the end of the year	17,000

Compensated retirement incentives are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued retirement incentives at the beginning of the year	-
Accrued retirement incentives at the end of the year	(240,000)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued absences at the beginning of the year	-
Accrued absences at the end of the year	(201,606)

Change in net assets of governmental activities **\$ (1,435,247)**

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

	PRIVATE- PURPOSE TRUST	AGENCY FUNDS
	<hr/>	<hr/>
CURRENT ASSETS		
Cash	\$ -	\$ 91,352
Investments	-	
	<hr/>	<hr/>
TOTAL ASSETS	\$ -	\$ 91,352
	<hr/>	<hr/>
LIABILITIES		
Due to student organizations		\$ 91,352
Due to general fund	\$ -	
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ -	\$ 91,352
	<hr/>	<hr/>
NET ASSETS		
Reserved for scholarships	\$ -	
	<hr/>	
TOTAL NET ASSETS	\$ -	
	<hr/>	
TOTAL LIABILITIES AND NET ASSETS	\$ -	
	<hr/>	

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	PRIVATE- PURPOSE TRUST
	<hr/>
ADDITIONS	
Fundraising activities	\$ -
Interest earnings	123
	<hr/>
Total additions:	123
	<hr/>
DEDUCTIONS	
Transfers to other fiduciaries	78,953
	<hr/>
CHANGE IN NET ASSETS	(78,830)
	<hr/>
NET ASSETS	
Beginning of year	78,830
	<hr/>
End of year	\$ -
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The School district was organized in 1856 and presently covers approximately 200 square miles covering all or parts of 13 Townships in Tuscola County. The School District operates under an elected School Board (7 members) and provides educational services to approximately 1,520 students.

The basic financial statements of the Cass City Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

REPORTING ENTITY:

The Cass City Public Schools (the "District") is governed by the Cass City Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in GASB Statement #14 and #39, nor is the District a component unit of another entity.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has largely been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use, or directly benefit from goods or services by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the Intermediate School District and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District utilizes restricted resources to finance their respective, qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. These functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued):

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds:

Governmental funds are those funds through which most school district functions are typically financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following **major** governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the servicing of general long-term debt. This fund is not a major fund, however, the District reports it as one.

The District reports the following **nonmajor** governmental fund:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The school service funds of the District are accounted for as special revenue funds and include the athletic and school lunch programs.

Fiduciary Funds:

Fiduciary funds account for assets held by the district in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the district under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following **fiduciary** funds:

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

The *Private-purpose Trust Fund* is accounted for using the accrual method of accounting. Nonexpendable trust funds account for assets where only the interest may be spent. These funds are not reported on the District's financial statements. The District's trust fund currently holds assets donated to the District.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION:

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental funds are used to account for the District's general government activities. Governmental fund types use the flow of *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Foundation Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006 the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October, 2005 to August, 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

State Categorical Revenue:

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Federal Revenue:

Expenditure-driven grants are recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY:

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost. The District had no investments at June 30th.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables.

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the Governmental Funds Balance Sheet.

3. Property Taxes.

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year-end). Amounts received subsequent to August 31 are recognized as revenue when collected.

The District along with certain other governmental units is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund - Non Homestead	18.00
1996 Debt Service Fund	3.77

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

4. Inventories and Prepaid items.

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue fund consisting of expendable supplies held for consumption are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as followed:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences.

Each teacher shall be credited with six sick leave days at the beginning of each semester that can be accumulated to eighty-two days. All unused sick leave days in excess of seventy days shall be paid to the teacher at the end of the school year on the basis of 80% of the substitute teacher rate per day. Following this policy assures no accruals for compensated absences at year-end. If a teacher leaves the district, they forfeit their accumulated sick leave time.

7. Unemployment Insurance.

The District reimburses the Michigan Employment Security Commission (MESA) for the actual amount of unemployment benefits disbursed by the MESA on behalf of the District. Billings received for amounts paid by the MESA through June 30, are accrued, if material.

8. Long-term obligations.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ASSETS, LIABILITIES AND EQUITY, (Continued):

9. Fund Balance.

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Memorandum only - Total Column.

The total column on the combined general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis and do not represent consolidated financial information. Data in these columns do not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

11. Use of Estimates.

The process of preparing basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY:

Budgets are adopted on a basis consistent with U. S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District does not maintain a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY (Continued):

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue and debt service fund.
6. The budget as presented, has been amended, Supplemental appropriations were made during the year with the last one approved prior to June 30.

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK:

As of June 30, 2006, the District had the following investments.

Investment Type	Fair value	Maturity (Years)	& Poor's Rating	%
MILAF External Investment pool -MICMS	\$24,755	0.0027	AAAm	100.0%
Total fair value	<u>\$24,755</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - CASH AND EQUIVALENTS - CREDIT RISK (CONTINUED):

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At June 30, 2006, the carrying amount of the District's deposits was \$1,830,998 and the bank balance was \$2,231,130. Of the bank balance, \$199,798 was covered by federal deposit insurance while the remaining bank balance of \$2,031,332 was uninsured and uncollateralized. The District places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are, in the opinion of the District, subject to minimal risk.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 1,739,646
Fiduciary Funds	91,352
Investments - Fiduciary Funds	-
Investments - District wide	<u>24,755</u>
	<u>\$ 1,855,753</u>

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and post-retirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800) 381-5111.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; and 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 14.87% through September 2005 and 16.34% for October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005, and 2004 were \$1,070,319, \$1,006,506, and \$901,521, respectively, and were equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-Employment Benefits – Also within the MPERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPERS with the balance deducted from the monthly pension.

NOTE 5 - RISK MANAGEMENT:

The District is exposed to risk of loss related to injuries to employees'. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors & omissions.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES:

	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$23,152	
Special Revenue Fund:		
Food Service		<u>\$23,152</u>
Total	<u>\$23,152</u>	<u>\$23,152</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 7 - LONG-TERM DEBT:

The following is a summary of the serial bonds of the school district for the year ended June 30, 2006:

	<u>SERIAL BONDS</u>
Balance payable - July 1, 2005	\$2,696,141
1996 Bonds paid	(635,000)
Skyward software loan payment	(23,911)
Durant debt payment	(28,642)
Accumulated Compensated absences	201,606
Teacher early retirement incentives	<u>240,000</u>
Balance payable June 30, 2006	<u>\$2,450,194</u>

As of June 30, 2006, the school district had the following outstanding bonds and notes payable:

1996 bond to erect a new middle school building; 4.90% to 5.00% interest	\$1,920,000
1998 Durant bonds; 4.76% interest	51,260
2004 Skyward software loan; 3.5% interest for 3 years	37,328
Accumulated Compensated absences	201,606
Teacher early retirement incentives	<u>240,000</u>
Total	<u>\$2,450,194</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2006 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 751,151	\$ 99,019	\$ 850,170
2008	739,162	65,894	825,056
2009	726,960	33,822	740,782
2010	7,291	1,491	8,782
2011	7,639	1,144	8,783
2012	8,002	780	8,782
2013	8,383	399	8,782
Accumulated Compensated Absences	<u>201,606</u>	<u>0</u>	<u>201,606</u>
TOTAL	<u>\$2,450,194</u>	<u>\$202,549</u>	<u>\$2,652,743</u>

An amount of \$338,920 is available in the debt service fund to service the general obligation debt.

Interest expense (all funds) for the year ended June 30, 2006 was \$128,235.

CASS CITY PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - OPERATING LEASES:

The School District entered into various 3-year lease agreements with Compaq for the lease of new computers for Campbell elementary, the middle school, and the high school. Lease expense for June 30, 2006 amounted to \$42,707. At June 30, 2006, future lease payments under such leases are as follows:

June 30, 2007 \$7,417

NOTE 9 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2006</u>
Assets not being depreciated – land	\$ 134,775			\$ 134,775
Other capital assets:				
Land improvements	224,076			224,076
Building and additions	10,876,351			10,876,351
Machinery and equipment	1,547,235	\$ 19,572		1,566,807
Transportation equipment	<u>936,583</u>	<u>57,942</u>		<u>994,525</u>
Subtotal	13,584,245	77,514		13,661,759
Accumulated depreciation	<u>(5,946,150)</u>	<u>(413,891)</u>		<u>(6,360,041)</u>
Net Other capital assets:	<u>7,638,095</u>	<u>(336,377)</u>		<u>7,301,718</u>
Net capital assets	<u>\$7,772,870</u>	<u>\$(336,377)</u>	<u>NONE</u>	<u>\$7,436,493</u>

Depreciation for the fiscal year ended June 30, 2006 amounted to \$413,891. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 10 – TRANSFERS:

During the current fiscal year the general fund transferred \$163,958 to the athletic fund. The transfer was to subsidize operations.

NOTE 11 – DEFICIT FUND BALANCES:

At the end of the current fiscal year, the School District had a deficit of \$18,845 in the Hot Lunch Fund and a Deficit of \$223,168 in the General Fund. At the June, 2006 School Board Meeting, the 2006-2007 budgets were adopted. These budgets included many cost reductions and further reductions will be made as needed in order to eliminate the deficit fund balances before the end of the 2006-2007 school year.

NOTE 12 – STATE AID ANTICIPATION NOTE:

The School District borrowed \$2,300,000 in April 2006 from a local bank with interest at 3.93%. This short-term loan is due April 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CASS CITY PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	BUDGET			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES:				
Local sources	\$ 892,223	\$ 903,495	\$ 825,940	\$ (77,555)
State source	9,908,219	9,898,721	9,896,964	(1,757)
Federal sources	415,927	418,823	436,078	17,255
Other transactions:				
Transfers from other districts	38,000	51,500	54,260	2,760
Sale of school property		500	2,575	2,075
TOTAL REVENUES	11,254,369	11,273,039	11,215,817	(57,222)
EXPENDITURES:				
Instruction	\$ 8,026,100	8,088,613	8,456,817	(368,204)
Supporting services	3,471,370	3,535,828	3,800,581	(264,753)
Community services	114,445	107,640	111,820	(4,180)
TOTAL EXPENDITURES	11,611,915	11,732,081	12,369,218	(637,137)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(357,546)	(459,042)	(1,153,401)	(694,359)
OTHER FINANCING SOURCES (USES):				
Loan proceeds	-	-	-	-
Principal payments		-	(23,911)	(23,911)
Interest payments		-	(1,914)	(1,914)
Transfer to Athletic fund & Hot Lunch	(160,000)	(160,000)	(163,958)	(3,958)
TOTAL OTHER FINANCING SOURCES (USES)	(160,000)	(160,000)	(189,783)	(29,783)
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(517,546)	(619,042)	(1,343,184)	(724,142)
FUND BALANCE - BEGINNING OF YEAR	1,120,016	1,120,016	1,120,016	-
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 602,470	\$ 500,974	\$ (223,168)	\$ (724,142)

ADDITIONAL INFORMATION

CASS CITY PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
June 30, 2006

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2006</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 5,485	\$ 5,485
Accounts receivable	-	-
<u>TOTAL ASSETS</u>	<u>\$ 5,485</u>	<u>\$ 5,485</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES:		
Due to other funds	<u>\$ 23,152</u>	<u>\$ 23,152</u>
 FUND BALANCE:		
Unreserved (Deficit)	<u>(17,667)</u>	<u>(17,667)</u>
 TOTAL FUND BALANCE (DEFICIT)	<u>(17,667)</u>	<u>(17,667)</u>
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 5,485</u>	<u>\$ 5,485</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	<u>GOVERNMENTAL FUND TYPES</u>	<u>TOTAL</u>
	<u>SPECIAL REVENUE</u>	<u>2006</u>
REVENUES:		
Local sources		
Property Tax		-
Interest Income	\$ 150	\$ 150
Food sales and athletic admissions	321,029	321,029
Other		-
State sources	40,924	40,924
Federal sources	247,469	247,469
	<u>609,572</u>	<u>609,572</u>
TOTAL REVENUES		
	<u>609,572</u>	<u>609,572</u>
EXPENDITURES:		
Food services	541,993	541,993
Athletics	252,918	252,918
	<u>794,911</u>	<u>794,911</u>
TOTAL EXPENDITURES		
	<u>794,911</u>	<u>794,911</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(185,339)</u>	<u>(185,339)</u>
OTHER FINANCING SOURCES (USES):		
Transfer from General Fund	163,958	163,958
	<u>163,958</u>	<u>163,958</u>
TOTAL OTHER FINANCING SOURCES (USES)		
	<u>163,958</u>	<u>163,958</u>
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	<u>(21,381)</u>	<u>(21,381)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>3,714</u>	<u>3,714</u>
FUND BALANCE (DEFICIT) - END OF YEAR	<u>\$ (17,667)</u>	<u>\$ (17,667)</u>

The accompanying notes are an integral part of the financial statements.

CASS CITY PUBLIC SCHOOLS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL (GAAP BASIS) -
 GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND			SPECIAL REVENUE FUND		
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:						
Local sources	\$ 903,495	\$ 825,940	\$ (77,555)	\$ 359,507	\$ 321,179	\$ (38,328)
State source	9,898,721	9,896,964	(1,757)	43,000	40,924	(2,076)
Federal sources	418,823	436,078	17,255	251,662	247,469	(4,193)
Other transactions:						
Transfers from other districts	51,500	54,260	2,760			
Sale of school property	500	2,575	2,075			
TOTAL REVENUES	11,273,039	11,215,817	(57,222)	654,169	609,572	(44,597)
EXPENDITURES:						
Instruction	8,088,613	8,456,817	(368,204)			
Supporting services	3,535,828	3,800,581	(264,753)			
Community services	107,640	111,820	(4,180)			
School activities				814,169	794,911	19,258
Debt services:						
Principal retirement						
Interest						
Other						
TOTAL EXPENDITURES	11,732,081	12,369,218	(637,137)	814,169	794,911	19,258
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(459,042)	(1,153,401)	(694,359)	(160,000)	(185,339)	(25,339)
OTHER FINANCING SOURCES (USES):						
Transfer from General fund				160,000	163,958	3,958
Principal Payments	-	(23,911)	(23,911)			
Interest Payments	-	(1,914)	(1,914)			
Transfer to Athletic fund & Hot Lunch	(160,000)	(163,958)	(3,958)			
TOTAL OTHER FINANCING SOURCES (USES)	(160,000)	(189,783)	(29,783)	160,000	163,958	3,958
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES (USES)	(619,042)	(1,343,184)	(724,142)	0	(21,381)	(21,381)
FUND BALANCE - BEGINNING OF YEAR	1,120,016	1,120,016		3,714	3,714	
FUND BALANCE (DEFICIT) - END OF YEAR	\$ 500,974	\$ (223,168)	\$ (724,142)	\$ 3,714	\$ (17,667)	\$ (21,381)

The accompanying notes are an integral part of the financial statements.

DEBT SERVICE FUND		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 757,692	\$ 768,266	\$ 10,574
8,782	41,445	32,663
766,474	809,711	43,237
704,259	663,641	40,618
65,359	138,639	(73,280)
300	0	300
769,918	802,280	(32,362)
(3,444)	7,431	10,875
(3,444)	7,431	10,875
331,489	331,489	
\$ 328,045	\$ 338,920	\$ 10,875

TOTAL (MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 2,020,694	\$ 1,915,385	\$ (105,309)
9,950,503	9,979,333	28,830
670,485	683,547	13,062
51,500	54,260	2,760
500	2,575	2,075
12,693,682	12,635,100	(58,582)
8,088,613	8,456,817	(368,204)
3,535,828	3,800,581	(264,753)
107,640	111,820	(4,180)
814,169	794,911	19,258
704,259	663,641	40,618
65,359	138,639	(73,280)
300	0	300
13,316,168	13,966,409	(650,241)
(622,486)	(1,331,309)	(708,823)
160,000	163,958	3,958
-	(23,911)	(23,911)
		(1,914)
(160,000)	(163,958)	(3,958)
-	(25,825)	(25,825)
(622,486)	(1,357,134)	(734,648)
1,455,219	1,455,219	
\$ 832,733	\$ 98,085	\$ (734,648)

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER
FINANCING SOURCES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
REVENUE FROM LOCAL SOURCES:			
Property Tax	\$ 777,223	\$ 736,109	\$ (41,114)
Interest income	10,000	7,650	(2,350)
Tuition and fees	39,000	23,101	(15,899)
Rental of building	1,000	7,220	6,220
Other	76,272	51,860	(24,412)
TOTAL REVENUE FROM LOCAL SOURCES	<u>903,495</u>	<u>825,940</u>	<u>(77,555)</u>
REVENUE FROM STATE SOURCES:			
State aid	9,886,214	9,884,457	(1,757)
Durant funds	12,507	12,507	-
TOTAL REVENUE FROM STATE SOURCES	<u>9,898,721</u>	<u>9,896,964</u>	<u>(1,757)</u>
REVENUE FROM FEDERAL SOURCES:			
Title I	309,230	310,893	1,663
Class Size Reduction Program	98,352	105,546	7,194
Homeland Security	-	3,860	3,860
Other	11,241	15,779	4,538
TOTAL REVENUE FROM FEDERAL SOURCES	<u>418,823</u>	<u>436,078</u>	<u>17,255</u>
OTHER FINANCING SOURCES:			
Transfers from Other Districts	51,500	54,260	2,760
Sale of School Property	500	2,575	2,075
TOTAL REVENUES	<u>\$ 11,273,039</u>	<u>\$ 11,215,817</u>	<u>\$ (57,222)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION:			
Basic Programs:			
Elementary:			
Salaries - teachers	\$ 1,305,928	\$ 1,341,139	\$ (35,211)
Salaries - Gesell & Homebound teacher	600	787	(187)
Salaries - substitute teachers	10,000	17,008	(7,008)
Salaries - aides	58,000	57,369	631
Travel	400	439	(39)
Teaching supplies & textbooks	154,800	156,987	(2,187)
Employee benefits	664,680	668,712	(4,032)
Capital outlay	7,500	7,517	(17)
Other expenses	3,900	5,934	(2,034)
Total Elementary	<u>2,205,808</u>	<u>2,255,892</u>	<u>(50,084)</u>
Middle/Junior High:			
Salaries - teachers	1,436,920	1,447,156	(10,236)
Salaries - substitute teachers	10,000	18,498	(8,498)
Salaries - aides	8,000	8,632	(632)
Salaries - Homebound teachers	500	-	500
Teaching supplies & textbooks	98,275	98,984	(709)
Employee benefits	736,894	733,505	3,389
Capital outlay	380	380	-
Travel	485	485	-
Other expenses	1,000	1,249	(249)
Total Middle/Junior High	<u>2,292,454</u>	<u>2,308,889</u>	<u>(16,435)</u>
High School:			
Salaries - teachers	1,087,960	1,197,856	(109,896)
Salaries - substitute teachers	35,740	49,481	(13,741)
Salaries - Homebound teachers	500	661	(161)
Salaries - drivers education	26,385	14,791	11,594
Teaching supplies & textbooks	146,170	146,225	(55)
Travel	42,000	41,838	162
Drivers education supplies	2,800	2,078	722
Employee benefits	587,544	673,728	(86,184)
Capital outlay	32,477	59,837	(27,360)
Purchased services	1,200	975	225
Other expenses	2,520	6,706	(4,186)
Total High School	<u>1,965,296</u>	<u>2,194,176</u>	<u>(228,880)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
Added Needs:			
Special Education:			
Salaries - teachers	\$ 554,557	\$ 545,653	\$ 8,904
Salaries - teachers aides	40,000	45,952	(5,952)
Salaries - homebound teachers	-	-	-
Salaries - Bus Drivers	-	167	(167)
Salaries - substitute teachers	18,950	27,273	(8,323)
Teaching supplies & textbooks	14,526	13,441	1,085
Travel	160	203	(43)
Payments to I.S.D.	-	19,577	(19,577)
Other expenses	550	646	(96)
Employee benefits	290,511	287,810	2,701
Total Special Education	<u>919,254</u>	<u>940,722</u>	<u>(21,468)</u>
Compensatory Education:			
Salaries - directors	15,000	15,000	-
Salaries - teachers	106,696	107,341	(645)
Salaries - teachers aides	87,014	92,474	(5,460)
Salaries - substitute teachers	-	-	-
Salaries - clerical	1,500	1,500	-
Teaching supplies	4,704	7,907	(3,203)
Audit	800	800	-
Capital outlay	-	-	-
Travel, workshop & conferences	4,125	5,023	(898)
Employee benefits	76,995	83,452	(6,457)
Total Compensatory Education	<u>296,834</u>	<u>313,497</u>	<u>(16,663)</u>
Title II:			
Salaries	46,077	49,242	(3,165)
Employee benefits	22,936	22,065	871
Purchased Service	29,339	33,949	(4,610)
Teaching Supplies	5,741	6,032	(291)
Capital Outlay	-	-	-
Total Title II	<u>104,093</u>	<u>111,288</u>	<u>(7,195)</u>
Drug Free schools	<u>-</u>	<u>1,477</u>	<u>(1,477)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
INSTRUCTION, (Continued):			
Added Needs, (Continued):			
Vocational Education:			
Salaries - directors	\$ 18,555	\$ 18,555	-
Salaries - teachers	32,824	34,355	\$ (1,531)
Salaries - substitute teachers	100	38	62
Teaching supplies	900	846	54
Employee benefits	22,924	14,541	8,383
Travel	30	194	(164)
Capital outlay	-	-	-
Total Vocational Education	<u>75,333</u>	<u>68,529</u>	<u>6,804</u>
At-Risk:			
Salaries - teachers	141,879	150,849	(8,970)
Employee benefits	47,362	51,835	(4,473)
Purchased service	2,800	2,379	421
Capital Outlay	30,000	33,223	(3,223)
Teaching supplies	3,500	949	2,551
Miscellaneous	-	25	(25)
Total At-Risk	<u>225,541</u>	<u>239,260</u>	<u>(13,719)</u>
ACE			
Salaries	-	-	-
Benefits	-	1,096	(1,096)
Total ACE	<u>-</u>	<u>1,096</u>	<u>(1,096)</u>
Improvement of Instruction:			
Salaries	-	13,624	(13,624)
Benefits	-	2,868	(2,868)
Purchased services	4,000	5,499	(1,499)
Total Improvement of Instruction	<u>4,000</u>	<u>21,991</u>	<u>(17,991)</u>
TOTAL INSTRUCTION	<u>8,088,613</u>	<u>8,456,817</u>	<u>(368,204)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES:			
Pupil Services:			
Guidance Services:			
Salaries - counselors	\$ 136,143	\$ 136,370	\$ (227)
Salaries-clerical	19,500	20,404	(904)
Supplies & other costs	5,700	5,900	(200)
Travel	250	284	(34)
Employee benefits	68,139	70,014	(1,875)
Capital outlay	-	-	-
Total Guidance Services	<u>229,732</u>	<u>232,972</u>	<u>(3,240)</u>
Health Services:			
Salary - nurse	31,858	32,108	(250)
Employee benefits	9,793	9,617	176
Local travel	200	352	(152)
Supplies & other cost	5,100	5,895	(795)
Capital outlay	-	1,645	(1,645)
Total Health Services	<u>46,951</u>	<u>49,617</u>	<u>(2,666)</u>
Social Worker:			
Salaries	37,893	39,014	(1,121)
Travel	150	345	(195)
Supplies & other cost	300	346	(46)
Employee benefits	23,526	23,777	(251)
Total Social Worker	<u>61,869</u>	<u>63,482</u>	<u>(1,613)</u>
Crossing Guards:			
Salaries	12,000	10,989	1,011
Employee benefits	2,979	2,612	367
Supplies	100	-	100
Total Crossing Guards	<u>15,079</u>	<u>13,601</u>	<u>1,478</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Library and A-V:			
Salaries - librarians	\$ 182,968	\$ 186,796	\$ (3,828)
Salaries - aides	29,000	27,404	1,596
Library books	14,160	14,113	47
Periodicals	9,324	9,321	3
Miscellaneous supplies	4,900	4,268	632
Capital outlay	3,900	3,916	(16)
Employee benefits	98,829	95,241	3,588
Total Library and A-V	<u>343,081</u>	<u>341,059</u>	<u>2,022</u>
Computer Technology			
Salaries - teachers	53,553	53,553	-
Salaries - aides	10,500	13,300	(2,800)
Salaries - custodial	-	-	-
Supplies & other costs	91,426	102,949	(11,523)
Contract services	-	-	-
Employee benefits	28,485	29,613	(1,128)
Lease payments	-	-	-
Capital outlay	26,000	35,638	(9,638)
Total Computer Technology	<u>209,964</u>	<u>235,053</u>	<u>(25,089)</u>
General Administration:			
Board of Education:			
Salaries	-	-	-
Travel	-	-	-
Supplies & other cost	1,000	646	354
Other expenses	17,000	14,430	2,570
Total Board of Education	<u>18,000</u>	<u>15,076</u>	<u>2,924</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Executive Administration:			
Salaries - superintendent	\$ 134,834	\$ 168,653	\$ (33,819)
Salaries - clerical	3,700	3,696	4
Personnel services	83,000	86,623	(3,623)
Audit and legal services	19,025	21,932	(2,907)
Elections	1,500	3,294	(1,794)
Travel, conference & workshops	2,300	1,528	772
Telephone	1,600	1,587	13
Advertising	1,000	372	628
Printing & publishing	400	90	310
Office Supplies	3,500	4,074	(574)
Supplies & other cost	8,000	12,144	(4,144)
Employee benefits	51,594	45,017	6,577
Capital outlay	-	490	(490)
Total Executive Administration	<u>310,453</u>	<u>349,500</u>	<u>(39,047)</u>
School Administration:			
Salaries - principals	236,355	235,878	477
Salaries - clerical	103,000	119,947	(16,947)
Employee benefits	168,034	204,075	(36,041)
Travel, conferences & workshop	200	1,662	(1,462)
Telephone	22,134	15,138	6,996
Supplies & other costs	7,000	8,904	(1,904)
Agri-valley connection	-	-	-
Capital outlay	-	800	(800)
Contract service	76,496	76,496	-
Other expenses	5,500	8,959	(3,459)
Total School Administration	<u>618,719</u>	<u>671,859</u>	<u>(53,140)</u>
Business Administration:			
Fiscal Services:			
Contracted services - data processing	<u>13,800</u>	<u>13,084</u>	<u>716</u>
Total Fiscal Services	<u>13,800</u>	<u>13,084</u>	<u>716</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
SUPPORTING SERVICES, (Continued):			
Pupil Services, (Continued):			
Operations & Maintenance of Plant:			
Salaries - supervisors	\$ 111,900	\$ 115,567	\$ (3,667)
Salaries - custodians	214,958	232,213	(17,255)
Salaries - temporary help	24,000	22,674	1,326
Heating fuel	121,645	156,459	(34,814)
Electricity	116,251	161,202	(44,951)
Water & sewage	18,500	21,330	(2,830)
Trash disposal	7,000	6,581	419
Contracted services	63,000	62,242	758
Rental equipment	20,800	33,102	(12,302)
Supplies & other costs	94,686	97,107	(2,421)
Other expenses	493	493	-
Capital outlay	33,667	27,525	6,142
Employee benefits	228,630	230,728	(2,098)
Total Operations & Maintenance of Plant	<u>1,055,530</u>	<u>1,167,223</u>	<u>(111,693)</u>
Pupil Transportation:			
Salaries - supervisor	25,800	25,503	297
Salaries - clerical	12,200	12,200	-
Salaries - drivers	176,000	187,871	(11,871)
Salary - bus mechanic	33,750	33,956	(206)
Insurance	15,500	15,049	451
Gas, oil & grease	75,400	91,599	(16,199)
Tires, tubes & batteries	5,000	4,063	937
Travel	-	-	-
Vehicle repairs	41,000	43,090	(2,090)
Building repairs	2,000	1,958	42
Miscellaneous expense	6,270	7,166	(896)
Capital outlay - vehicles	60,173	60,959	(786)
Employee benefits	89,175	73,152	16,023
Other expenses	1,525	1,615	(90)
Total Pupil Transportation	<u>543,793</u>	<u>558,181</u>	<u>(14,388)</u>
Fixed Charges:			
Building insurance	38,000	33,767	4,233
Student liability insurance	2,638	2,638	-
Employee benefits	2,500	1,515	985
Tax abatement	-	10,327	(10,327)
Interest expense	25,719	41,627	(15,908)
Total Fixed Charges	<u>68,857</u>	<u>89,874</u>	<u>(21,017)</u>
TOTAL SUPPORTING SERVICES	<u>3,535,828</u>	<u>3,800,581</u>	<u>(264,753)</u>

CASS CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER
FINANCING USES COMPARED TO BUDGET
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
COMMUNITY SERVICES:			
Community Education:			
Salaries	\$ 11,070	\$ 11,070	-
Employee benefits	10,875	10,885	\$ (10)
Purchased service	300	85	215
Teaching supplies & textbooks	150	150	-
Other expenses	-	-	-
Total Community Education	<u>22,395</u>	<u>22,190</u>	<u>205</u>
Early Childhood Program:			
Administrative support	8,580	8,580	-
Salaries - teachers	35,929	34,739	1,190
Salaries - bus drivers	120	233	(113)
Salaries - aides	12,348	13,841	(1,493)
Salaries - clerical	-	-	-
Travel & conference	721	846	(125)
Supplies & other costs	2,000	1,696	304
Employee benefits	21,047	24,726	(3,679)
Other expenses	4,500	4,969	(469)
Total Early Childhood Program	<u>85,245</u>	<u>89,630</u>	<u>(4,385)</u>
TOTAL COMMUNITY SERVICES	<u>107,640</u>	<u>111,820</u>	<u>(4,180)</u>
TOTAL EXPENDITURES	11,732,081	12,369,218	(637,137)
OTHER FINANCING USES:			
Operating transfer - Athletic Fund & Hot Lunch	160,000	163,958	(3,958)
Principal payments	-	23,911	(23,911)
Interest payments	-	1,914	(1,914)
OTHER FINANCING USES:	160,000	189,783	(29,783)
TOTAL EXPENDITURES & OTHER FINANCING USES	<u>\$ 11,892,081</u>	<u>\$ 12,559,001</u>	<u>\$ (666,920)</u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>COMBINED</u>
<u>ASSETS</u>			
Cash in bank	\$ 4,307	\$ 1,178	\$ 5,485
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 4,307</u></u>	<u><u>\$ 1,178</u></u>	<u><u>\$ 5,485</u></u>
 <u>LIABILITIES & FUND BALANCE</u>			
Due to other funds	<u>\$ 23,152</u>	<u>-</u>	<u>\$ 23,152</u>
TOTAL LIABILITIES	23,152	-	23,152
FUND BALANCE (DEFICIT)	<u>(18,845)</u>	<u>\$ 1,178</u>	<u>(17,667)</u>
TOTAL LIABILITIES & FUND BALANCE	<u><u>\$ 4,307</u></u>	<u><u>\$ 1,178</u></u>	<u><u>\$ 5,485</u></u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2006

	<u>FOOD SERVICES</u>	<u>ATHLETICS</u>	<u>COMBINED</u>	<u>COMBINED BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:					
Local Sources:					
Sale of meals & milk	\$ 201,068		\$ 201,068	\$ 248,007	\$ (46,939)
Admissions		\$ 89,599	89,599	83,594	6,005
Interest	118	32	150	500	(350)
Sale of supplies			-	5,500	(5,500)
Other	30,358	4	30,362	21,906	8,456
Total Local Sources	<u>231,544</u>	<u>89,635</u>	<u>321,179</u>	<u>359,507</u>	<u>(38,328)</u>
State Sources:					
State Lunch Aid	40,924		40,924	43,000	(2,076)
Other	-		-	-	-
Total State Sources	<u>40,924</u>	<u>-</u>	<u>40,924</u>	<u>43,000</u>	<u>(2,076)</u>
Federal Sources:					
National School Lunch Program	216,050		216,050	215,702	348
USDA Commodities	31,419		31,419	35,960	(4,541)
Total Federal Sources	<u>247,469</u>	<u>-</u>	<u>247,469</u>	<u>251,662</u>	<u>(4,193)</u>
TOTAL REVENUE	<u>519,937</u>	<u>89,635</u>	<u>609,572</u>	<u>654,169</u>	<u>(44,597)</u>
EXPENDITURES:					
School Service Activities:					
Salaries & wages	166,476	158,630	325,106	330,168	5,062
Employee benefits	76,074	29,016	105,090	93,024	(12,066)
Food & milk	253,182		253,182	276,837	23,655
Supplies & Other Costs	46,261	56,025	102,286	103,140	854
Capital Outlay	-	9,247	9,247	11,000	1,753
TOTAL EXPENDITURES	<u>541,993</u>	<u>252,918</u>	<u>794,911</u>	<u>814,169</u>	<u>19,258</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(22,056)</u>	<u>(163,283)</u>	<u>(185,339)</u>	<u>(160,000)</u>	<u>(25,339)</u>
OTHER FINANCING SOURCES:					
Transfers from General Fund	-	163,958	163,958	160,000	3,958
EXCESS OF REVENUES OVER EXPENDITURES & OTHER SOURCES	<u>(22,056)</u>	<u>675</u>	<u>(21,381)</u>	<u>\$ -</u>	<u>\$ (21,381)</u>
FUND BALANCE - JULY 1	<u>3,211</u>	<u>503</u>	<u>3,714</u>		
FUND BALANCE (DEFICIT) - JUNE 30	<u>\$ (18,845)</u>	<u>\$ 1,178</u>	<u>\$ (17,667)</u>		

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
June 30, 2006

	<u>1996 DEBT SERVICE</u>	<u>DURANT DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
<u>ASSETS</u>			
Cash in bank	\$ 338,920	\$ -	\$ 338,920
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>
<u>TOTAL ASSETS</u>	<u>\$ 338,920</u>	<u>\$ -</u>	<u>\$ 338,920</u>
 <u>LIABILITIES & FUND BALANCE</u>			
Reserved for debt service	\$ 338,920	\$ -	\$ 338,920
<u>TOTAL LIABILITIES & FUND BALANCE</u>	<u>\$ 338,920</u>	<u>\$ -</u>	<u>\$ 338,920</u>

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>1996 DEBT SERVICE</u>	<u>DURANT DEBT SERVICE</u>	<u>TOTAL DEBT SERVICE</u>
REVENUES FROM LOCAL SOURCES:			
Local Sources:			
Current tax levy	\$ 765,423		\$ 765,423
Interest on investments	<u>2,843</u>		<u>2,843</u>
Total Local Sources	768,266		\$ 768,266
State Sources		<u>\$ 41,445</u>	<u>41,445</u>
TOTAL REVENUES	<u>768,266</u>	<u>41,445</u>	<u>809,711</u>
EXPENDITURES:			
Bond principal	635,000	28,641	663,641
Bond interest	125,835	12,804	138,639
Other bond costs	<u>0</u>	<u>-</u>	<u>0</u>
TOTAL EXPENDITURES	<u>760,835</u>	<u>41,445</u>	<u>802,280</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	7,431		7,431
FUND BALANCE - JULY 1	<u>331,489</u>	<u>-</u>	<u>331,489</u>
FUND BALANCE - JUNE 30	<u><u>\$ 338,920</u></u>	<u><u>-</u></u>	<u><u>\$ 338,920</u></u>

CASS CITY PUBLIC SCHOOLS
PRIVATE-PURPOSE TRUST AND AGENCY FUNDS
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2006

	<u>BALANCE JUNE 30, 2005</u>	<u>CASH RECEIPTS</u>	<u>CASH DISBURSEMENTS</u>	<u>BALANCE JUNE 30, 2006</u>
AGENCY FUNDS				
ELEMENTARY SCHOOLS:				
Campbell	\$ 17,088	\$ 41,595	\$ 42,374	\$ 16,309
TOTAL ELEMENTARY SCHOOLS	17,088	41,595	42,374	16,309
HIGH SCHOOL & MIDDLE SCHOOL:				
High School	34,677	117,045	117,419	34,303
Middle School	41,773	154,892	155,925	40,740
TOTAL HIGH SCHOOL & MIDDLE SCHOOL	76,450	271,937	273,344	75,043
TOTAL AGENCY FUNDS	93,538	313,532	315,718	91,352
PRIVATE-PURPOSE TRUST FUND				
Ben Hobart Scholarship fund	2,980	17 ¹	2,997	-
Zinnecker Scholarship	4,574	2 ¹	4,576	-
Kally Maharg Scholarship	13,252	104 ¹	13,356	-
McEachern Scholarship	58,024	- ²	58,024	-
TOTAL PRIVATE-PURPOSE TRUST FUND	78,830	123	78,953	-
TOTAL PRIVATE-PURPOSE TRUST AND AGENCY FUNDS	<u>\$ 172,368</u>	<u>\$ 313,655</u>	<u>\$ 394,671</u>	<u>\$ 91,352</u>
GENERAL FUND:				
Office accounts	\$ 17,383	\$ 24,862	\$ 24,854	\$ 17,391

Transfer Notes:

¹ Transfer to Tuscola County
Community Found

² Transfer to Thumb National Bank

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT
1996 DEBT RETIREMENT FUND
June 30, 2006

Purpose of Issue: Erecting, furnishing and equipping a new middle school building.

<u>DUE DATE</u>	<u>PRINCIPAL</u>	<u>RATES</u>	<u>INTEREST DUE</u>	<u>PAYMENT DUE</u>
11/1/2006			\$ 47,360	\$ 47,360
5/1/2007	\$ 640,000	4.90	47,360	687,360
11/1/2007			31,680	31,680
5/1/2008	640,000	4.90	31,680	671,680
11/1/2008			16,000	16,000
5/1/2009	<u>640,000</u>	5.00	<u>16,000</u>	<u>656,000</u>
TOTAL	<u>\$ 1,920,000</u>		<u>\$ 190,080</u>	<u>\$ 2,110,080</u>

The bonds are not subject to optional redemption prior to maturity.

See the accompanying notes.

CASS CITY PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT - DURANT BONDS
June 30, 2006

\$125,068 Durant Bond issued November 24, 1998:

PRINCIPAL DUE MAY 15	INTEREST DUE MAY 15	DEBT SERVICE REQUIREMENT FOR FISCAL YEAR	
		JUNE 30	AMOUNT
\$ 6,341	\$ 2,441	2007	\$ 8,782
6,644	2,139	2008	8,783
6,960	1,822	2009	8,782
7,291	1,491	2010	8,782
7,639	1,144	2011	8,783
8,002	780	2012	8,782
8,383	399	2013	8,782
<u>\$ 51,260</u>	<u>\$ 10,216</u>		<u>\$ 61,476</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing school buildings and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

See the accompanying notes.

CASS CITY PUBLIC SCHOOL DISTRICT

ADDITIONAL REPORTS REQUIRED
BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2006

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ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 10, 2006

To the Board of Education
Cass City Public Schools
Cass City, MI 48726

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools as of and for the year ended June 30, 2006, which collectively comprise Cass City Public Schools basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Cass City Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Cass City Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Cass City Public Schools in a separate letter dated August 10, 2006.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
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Robert L. Tuckey, CPA
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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 10, 2006

To the Board of Education
Cass City Public Schools
Cass City, MI 48726

COMPLIANCE

We have audited the compliance of Cass City Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. Cass City Public Schools' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cass City Public Schools' management. Our responsibility is to express an opinion on Cass City Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cass City Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cass City Public Schools' compliance with those requirements.

In our opinion, Cass City Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

INTERNAL CONTROL OVER COMPLIANCE

The management of Cass City Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cass City Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

To the Board of Education
August 10, 2006

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cass City Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Cass City Public Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tuckey, Bernhardt & Doran, P.C.

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS**

CASS CITY PUBLIC SCHOOLS, CASS CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2006
U.S. DEPARTMENT OF EDUCATION: Passed through Michigan Dept. of Education:	84.010	061530 0506	\$ 288,188			\$ 288,188	\$ 288,188	\$ -
	84.010	041530 0405	44,645		\$ 43,217	1,428	1,428	-
	84.010	051530 0506	21,042			21,042	21,042	-
	84.010	051530 0405	267,070	\$ (235)	\$ 266,835		235	-
	84.367	050520 0506	29,339			29,339	29,339	-
	84.367	050520 0405	64,788		55,094	(2,500)	7,194	-
	84.367	060520 0506	69,013			69,013	69,013	-
	84.298	060250 0506	2,604			2,604	2,604	-
	84.318	064290 0506	5,741			5,741	5,741	-
			792,430	(9,929)	365,146	414,855	424,784	-
TRANSFERS FROM OTHER GOVERNMENTAL UNITS:	84.186	052860/0405	4,454			4,454	4,454	
	84.243A	5014.11	2,980			2,980	2,980	
			7,434			7,434	7,434	
	97.004		3,860			3,860	3,860	
			11,294			11,294	11,294	
TOTAL TRANSFERS FROM OTHER GOVERNMENTAL UNITS								

CASS CITY PUBLIC SCHOOLS, CASS CITY, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE 6/30/2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 6/30/2006
U.S. DEPARTMENT OF AGRICULTURE:								
	Passed through Michigan Dept. of Education:							
			\$ 172,432			\$ 172,432	\$ 172,432	
	10.555							
National School Lunch Program	10.550		29,350			29,350	29,350	
Food Distribution Entitlement	10.550		2,069			2,069	2,069	
Bonus Commodities	10.553		43,618			43,618	43,618	
National School Lunch & Breakfast Program								
TOTAL U.S. DEPARTMENT OF AGRICULTURE			247,469	-	-	247,469	247,469	-
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,051,193	\$ (9,929)	\$ 365,146	\$ 673,618	\$ 683,547	\$ -

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Cass City Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Title I (CFDA number 84.010) was audited as a major program representing 45.5% of federal expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000. This schedule was prepared on the modified accrual basis of accounting.
4. Management has utilized the Grant Section Auditor's Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. The amount reported on the Receipt Entitlement Balance Report agrees with this schedule for the USDA donated food commodities.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	\$436,078
Special Revenue Fund	<u>247,469</u>
Total per financial statements	<u>\$683,547</u>
 Total expenditures per the SEFA	 <u>\$683,547</u>

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I

Dollar threshold used to distinguish between type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

**CASS CITY PUBLIC SCHOOL DISTRICT, CASS CITY, MICHIGAN
SCHEDULE OF PRIOR AUDIT FINDINGS**

There were no prior year audit findings for the year ended June 30, 2005.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants



Gary R. Anderson, CPA
Jerry J. Bernhardt, CPA
Thomas B. Doran, CPA

Robert L. Tuckey, CPA
Valerie Jamieson Hartel, CPA
Jamie L. Peasley, CPA

August 10, 2006

To the Board of Education
Cass City Public Schools
Cass City, Michigan

In planning and performing our audit of the financial statements of Cass City Public Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 10, 2006, on the financial statements of Cass City Public Schools.

Current Year Comments

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements.

Cash Management – Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. 30-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

Small Staff

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist because of the small accounting staff in the School District.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

Due to the limited number of people working in the business office, we recommend that the Board review the schools internal controls. We also recommend that someone from the Board or administrative staff periodically review bank statements, bank reconciliations, and cancelled checks.

To the Board of Education
August 10, 2006
Page 3

Internal Control Procedures

Since the receipts and disbursements of the athletic, hot lunch, and student activity funds are not under the same scrutiny as the general fund we recommend that the Board periodically review the internal control procedures of each of these funds.

We recommend that the District review internal control procedures for the athletic, hot lunch, and student activity funds including cash receipts procedures and expense approval procedures.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Cass City Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Anderson, Tuckey, Bernhardt & Doran, P.C.

Anderson, Tuckey, Bernhardt & Doran, P.C.
Certified Public Accountants